

Agricultural Outlook Forum 2002

Presented:

Thursday, February 21, 2002

## PARTNERSHIPS IN ACCESSING THE ECONOMIC AND ENVIRONMENTAL POTENTIAL OF CARBON CREDITS

Randy Williams, President, Fields To Forests

James L. Cummins, Executive Vice-President, The Carbon Fund

### Introduction - Fields To Forests

Ladies and gentlemen, as you may have noted, the first word in the title to this presentation is "Partnerships". That's a key word and a driver that is pushing the program that my partner, James L. Cummins, and I will be presenting to you.

You've already heard from two of the people and organizations I've partnered with on this panel. I have worked with Sam Hamilton and the U.S. Fish and Wildlife Service to reforest over 45,000 acres of public land on National Wildlife Refuges. And I worked with Dale Haydlauff and American Electric Power to reforest the private lands Dale just spoke to you about in central Louisiana. This new partnership that James and I will talk about will build on these recent successes and expand the opportunity for participation. And while the focus of our initial efforts will be in the Lower Mississippi River Valley, I believe what we have is a template that can be used throughout the United States.

In reviewing the success of the two programs you've just heard about, James and I realized that a key element was long-term partnership with the landowner. In one case it was public land with long-term control assured by the landowner - a federal agency. In the other case a large company bought a large tract of land and entered into an agreement with a federal agency for long-term monitoring. But how does this apply to the private landowner that wants to retain ownership of his or her family farm? And how can a private landowner work with large corporations that want to purchase "carbon credits" and be assured that their financial investment will be protected long-term? The answers to these questions are carbon easements and the pooling of their associated carbon credits. James' organization - The Carbon Fund - has a lot of experience with a variety of conservation-related easements.

My company - Fields to Forests - has helped pioneer the creation of carbon credits. Together, our organizations have a program that will assist landowners pool their resources to assure marketing success.

Now James Cummins will explain how the program is structured and how it works.

## Introduction - The Carbon Fund

Thank you, very much. It is such a pleasure to be here today.

The Carbon Fund (TCF) is designed to play a part in addressing two critically important international environmental issues of concern: Global Climate Change and Biodiversity.

TCF is addressing the issue of global warming through its Carbon Sequestration Management Program (CSMP), which utilizes the sequestration of carbon, long-term, in forests. The principle is based on the assumption that carbon bound in biomass cannot form carbon dioxide - a major GHG. In essence, TCF's focus on reforestation and preservation will have a positive impact in reducing green house gasses (GHG).

TCF matches the interests of agencies and organizations interested in ecosystem restoration with those of emissions-conscious corporations interested in carbon sequestration. By working with the major industries and environmental and energy agencies that have an interest in carbon management, TCF can pinpoint problems and target strategies so that these industries and agencies have effective and cost-efficient programs to manage carbon. TCF also educates the public about how carbon sequestration can contribute to clean air and healthy ecosystems and educates landowners about the carbon management options available to them.

TCF's CSMP takes this effort another step by assuring that the reforestation occurs in a biodiverse fashion. By planting a variety of tree species rather than a monoculture, TCF will be promoting the restoration of a naturally functioning forest ecosystem that will have benefits beyond carbon sequestration. Biodiversity will promote such public benefits as improved water quality, reduced soil erosion, fish and wildlife habitat and outdoor recreation. These improved environmental assets will be quantifiable and may be marketable, thus providing economic incentives to continue environmental enhancement.

TCF primarily works in the Lower Mississippi River Valley. Why? You ask. This area has an abundant supply of relatively low cost land, a strong ecological restoration need, one of the highest carbon sequestering rates on the planet. Also, the Mississippi River Trust, which holds perpetual and non-perpetual easements on property, will monitor each project on an annual basis, for the life of the easement, for compliance with the easement, which we term a "carbon easement."

## Carbon Assets Easement

A carbon easement is one of the newest and most owner friendly management tools available to manage carbon assets on a particular parcel of property.

In the case of "carbon rights" TCF will hold a long term "carbon easement" on the land to assure that the purchaser of the carbon rights receives the guaranteed "carbon credits". Instead of the purchaser of the carbon rights acquiring the property in fee simple, in this case you not only reduce the cost of the credits, but you also avoid property taxes and other costs associated with land ownership. Furthermore, the land stays in private ownership.

The simplest way to understand the concept involved in a carbon easement is to look at the basic rights that come with land ownership. When a carbon easement is placed on a property, the owner may give up certain rights (e.g., the right to develop the property, clearcut the property, etc.). Hunting, fishing, other recreational uses, timber management and utilization of other natural resources, such as minerals, can all be enjoyed as long as such activities are consistent with the restrictions that are chosen and placed in the initial easement conveyance. Importantly, however, easements do not allow public access to the property unless specifically provided in the easement document.

Restrictions on the property are specified in the carbon easement document the conveyance of which is 55, 70 or 99 years depending on the desires of corporation purchasing the carbon credits and the current use of the land. Depending on the length of time of the easement and the carbon sequestration rate of the property, a carbon easement is purchased from the landowner. Current market prices vary from \$300 to \$500 per acre.

The easement document itself is a legal instrument that is signed and recorded in the county of record. Since the easement runs with the land for a specified period of time, the restrictions continue with the property, even after the landowner dies or sells the property.

The carbon easement must be held by a qualified conservation organization such as a land trust. Simply stated, the landowner sells the specific rights they have chosen to relinquish to the conservation organization of their choosing via execution of the easement document. It is important to note that the conservation organization which holds the easement does not actually acquire the rights donated by the conservation easement. Rather, the easement gives the conservation organization the right and responsibility to monitor and enforce the restrictions placed on the property and ensure adherence to the easement document through the length of the easement.

Furthermore, conservation easements are becoming an increasingly important tool in the efforts to protect and conserve important habitat types and open space. Easements enable a landowner to protect natural habitats on their property while at the same time, taking advantage of potentially substantial federal tax benefits. For example, in the Lower Mississippi River Valley the tax deductions associated with conservation easements have ranged from \$800 per acre to over \$5,000 per acre.

The value of a conservation easement is established by a competent real estate appraiser experienced in the use of conservation easements. The appraiser will establish the value of the property without the easement then deduct the value of the property with the easement in place. The difference between the restricted and unrestricted value of the property is the amount that is considered as a charitable contribution for income tax purposes. In addition, the easement can reduce the value of the property in terms of the landowner's estate, thereby reducing the amount of estate taxes that would ultimately have to be paid.

#### Flexible Options (Restoration, CRP/CREP, WRP)

TCF encourages the participation of all farmers and landowners whose lands are now being used for agricultural and silvicultural purposes. We also seek to preserve those forested lands currently enrolled in State/Federal Conservation Programs that are subject to conversion back to agricultural uses.

We have very flexible options. The two options that exist are reforestation of existing agricultural lands and the preservation of lands enrolled in the U.S. Department of Agriculture's Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP). CRP protects highly erodible and environmentally sensitive lands with grass, trees and other cover; agreements are 10 and 15-years in length. WRP is a voluntary program that offers financial incentives to landowners who have previously converted wetlands to cropland or pastureland. Agreement length is perpetual, 30 or 10-years. Land enrolled in CRP or non-perpetual WRP is eligible for extending the life of the restoration through a carbon easement.

When one of these programs is involved, the provisions of the carbon easement remain subservient to any program contract with the subject land as long as that contract exists. Once the program contract is extinguished, the terms of this easement continue to apply for the life of the easement. Since the intent of these programs is to remove environmentally sensitive agricultural land from production and reduce soil erosion, improve water quality and provide wildlife habitat, this plan increases the length of time

of what the program contract initiated.

If the landowner can sell the carbon to us while receiving conservation program payments and then put the land in a perpetual conservation easement - with the associated tax benefits - he or she may be able to make more per acre than they would by just selling the property.

TCF will not displace productive land-use activity, is not a component of mandatory mitigation for Section 404 (Clean Water Act) projects and will be undertaken on lands that were cleared of their forest cover prior to 1990 and converted to agriculture or other uses that proved to be marginally productive.

Companies interested in purchasing "carbon credits" at a fixed price while reducing initial costs have the opportunity to purchase these credits now for lands enrolled in CRP and WRP at a reduced cost with a first right of refusal option to pay a final fee when the land comes out of the CRP/WRP enrollment.

### Pooling Of Assets

TCF works with landowners desiring to sell their carbon rights and reforest their property and buyers desiring to purchase carbon credits.

By pooling their carbon rights, landowners will be able to better market their carbon rights. TCF will serve as fiscal agent for the transfer of all funds associated with the sale of "Carbon Credits." After securing lands for reforestation, TCF will record all appropriate information on lands entered into the program as well as develop Forest Management Plans for lands entered into the program. This includes overseeing the planting processes associated with reforestation and ensuring the planting success of reforestation efforts made for five years. TCF and Fields To Forests will quantify the carbon sequestered and file all reports with the United States Department of Energy. TCF secures third party verification of the carbon quantification efforts (audit and certification).

To further discuss our CSMP, I am going to turn the program back over to my partner, Randy.

### Carbon Sequestration Management Plan

Basically the CSMP is a long-term commitment on how the land will be managed over time. The landowner determines what he wants to do with the land over

time and incorporates that long-term plan into the Easement Deed. The plan can be "no-till", mixed upland pine and hardwoods or bottomland hardwood reforestation. I take that long-term commitment and calculate the expected carbon accumulation over time. It's this quantifiable carbon accumulation that can be marketed and sold.

To narrow the focus for a moment, I'll use an example of how the CSMP is set up and administered. A landowner comes to The Carbon Fund, or one of our partner organizations such as the Mississippi Fish and Wildlife Foundation, the Wetland Habitat Alliance of Texas or the Mississippi River Trust, with some marginal farmland that he or she wants to be considered for this program. An on-site evaluation of the property is made to determine if it qualifies. In this case we'll say that the best use of the land is reforestation into a bottomland hardwood forests. The landowner working with James and me agrees to the right species mix and forest management plan. Proper/selective timber harvest will be a part of that plan. Once the CSMP is established the right to sell the carbon is turned over to us, the carbon credits are then marketed. Following seedling planting a periodic review of survival is made. Analyses are performed at specified times to see if growth and carbon accumulation is following predictive models.

One of the reasons I used this example is that while I mentioned that there are a variety of ways to accumulate carbon credits, the early focus of our program will be on the Lower Mississippi River Valley. This part of the country has been under intense environmental pressure for some time now. It's seen tremendous destruction of large, contiguous bottomland hardwood tracts. What we are doing is reforesting the marginal farmlands in this area. Restoration of naturally functioning bottomland hardwood habitats will have a variety of environmental benefits.

Now I'm going to let James talk to you about the socio/economic benefits as well.

### Socioeconomic Benefits

In late March of this past year, Matt Ridley of Newcastle, England, wrote an article in the Wall Street Journal titled "The End of Agriculture." Agriculture is not coming to an end. However, it is undergoing, and will continue to undergo, many changes.

One of the things Ridley discusses is that people are moving away from the farm to more urban areas. This change has been seen in the valley. "But what will happen to the land?" questions Ridley. "Population is growing

more slowly than food supply. This means that somewhere in the world, marginal land will start to come out of cultivation. Soon Eastern Europe will get its agricultural act together. Soon Africa will grab its share of the green revolution and harness the benefits of fertilizer, pesticides and plant breeding (not to mention genetic modification). At that point countries with economically marginal farmland will have to find other uses for the land."

"It happened in New England a century ago. Farms were abandoned and reverted to forests as their owners moved west to exploit the prairies. Today, these New England woods have far more value as private wood lots or conservation easements, than they would ever have as farmland. The same thing is happening in Britain. Much of the Scottish highlands is now valuable more for its deer than for its sheep. In parts of Devon, pheasant shooting is more profitable than raising cattle."

The "highest and best use" of this marginal land that will come out of cultivation may actually be in the form of habitat for ducks and trophy deer, bottomland hardwoods for filtering the air or even in uses that have not been considered.

In the Lower Mississippi River Valley, the economic benefits will be in the form of leases, guide services and tourism from promotion of the area's wildlife resources. This will not only create employment for local citizens in the form of outfitters, guides and helpers, but the clients attracted to the valley would utilize hotels/motels, restaurants, gas stations, grocery stores, gift shops and a variety of other existing, as well as new, businesses.

Residents are embracing our philosophy with great enthusiasm. There is much excitement about enhancing the environment at the same time we improve the economy. And why not? Expenditures in Mississippi alone for hunting and fishing currently total over \$1 billion. \$59 billion throughout the United States. When people see additional monies from improving wildlife habitat, much more wildlife habitat will be developed.

Once forests have been established through this program, the stands will be managed on a sustained yield basis with removals aimed at high value, durable products such as hardwood flooring, furniture, cabinets, etc. The carbon sequestered in these products will extend the capture period several decades after harvest and thereby meet any long-term permanence standards.

We are finding out that more and more, we are going to have to rely on private landowners rather than relying on appropriated dollars for acquisition of lands to be held by the government. We are going to have to

rely on private initiatives to help do the job. There is just not enough money in the federal treasury to do it without them. Most of the lands where wildlife are found are private, particularly in my part of the world - the Southeast.

Well, we may not always agree, but I hope we will make serious commitments to each other, and you will too, to work together and find common ground so progress can be made to achieve the common goals we share.

Thank you very much for allowing us to be a part of such a fine conference.